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**REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN
PARLIAMENT**

**Annual Report 2012 on the European Union's Development and external assistance
policies and their implementation in 2011**

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RIISING TO NEW CHALLENGES

2011 was a year of responding to new challenges and finding new solutions to existing ones. The Arab Spring – people-led movements in the EU's southern neighbourhood – led to calls for greater democracy and social justice. As the situation evolved across the Arab world, initial EU humanitarian support and civil protection measures were followed up with specific strategies and assistance tailored to those countries, supporting sustainable reforms and inclusive economic development. In Sub-Saharan Africa, a package of support from the EU greeted the world's newest state, South Sudan.

As the world's biggest aid donor, providing over 50% of the world's Official Development Assistance (ODA), the EU and its Member States affirmed their long-term commitment to poverty alleviation. A Communication on "Increasing the impact of EU development cooperation – an Agenda for Change"¹ – highlighted support for reducing poverty, democracy, good governance, sustainable and inclusive growth and the need to deliver aid to where it is most needed and where it can have the greatest impact. This had particular resonance given the difficult economic climate in the Eurozone. The biggest development event on the global calendar – the High Level Forum in Busan, South Korea, in November 2011 – also stressed enhanced effectiveness and co-ordination and the use of delivering aid through national 'country systems'. The future approach to EU budget support to third countries² – one of the EU's most important tools to give aid more impact and deliver improved results – accompanied the Agenda for Change. The new proposals for financing external aid and development, part of the Multiannual Financial Framework (2014-2020), were published in December 2011, outlining spending plans for the new priorities.

Agenda for change – modernising EU development policy

The two building blocks of the Agenda for Change are on the one hand human rights, democracy and good governance and on the other sustainable and inclusive growth. This sustainable and inclusive growth will be stimulated through promoting social inclusion and human development, decent work, business and regional integration, sustainable agriculture, energy supply and access to energy. A differentiated approach is proposed. This means that under the EU's next Multiannual Financial Framework, some countries – notably among those who are now donors in their own right – will receive less or no aid, and will be offered alternative forms of cooperation. This new approach will mean that the EU will be much better placed to promote and defend its core values and stand by its international commitments to its neighbours, particularly those on a path to joining the EU and those undergoing transition, as well as the poorest and most vulnerable globally.

Other features of the new policy are improved donor coordination, in particular EU Member States, to avoid duplication and ensure greater coherence and impact. The EU will prioritise sectors with a high impact on poverty reduction such as governance, social protection, health,

¹ COM(2011) 637 final

² COM (2011) 638 final

education, employment, agriculture and energy. In future, bilateral aid to countries will go to no more than three sectors³. Innovative tools such as the blending of grants and loans and the inclusion of the private sector are also part of the updated policy.

In the context of the revision of European Investment Bank external mandate, the Commission is studying the possible establishment of an EU platform for cooperation and development with a view to optimising the mechanisms for blending in the external regions⁴.

Energy generates poverty reduction

Energy is important for poverty reduction – to meet basic human needs such as cooking, health, housing, communication and decent employment. It is also an income-generator, creating business opportunities. With around €2 billion of grants allocated to the energy sector in developing countries over the last seven years, the EU is a leader in empowering the world. EU instruments such as the ACP-EU energy facility, the Africa-EU renewable energy programme and the EU-Africa Infrastructure Trust Fund have been used to fund individual projects across the African continent. The Commission wants to drive funding levels for the sector up by incorporating the private sector and development banks in future projects. The European Commissioner for Development is part of a high-level group on sustainable Energy for All set up by UN Secretary General Ban Ki-Moon which is seeking to mobilise funds from all sectors of society to fuel energy-related programmes. Energy is also a core sector of the Agenda for Change.

Budget support – a vector for change

The Communication on *the new approach to EU budget support*, published in tandem with the proposals for the *Agenda for Change* in October 2011, sharpened the use of this development tool as a vector for change. Budget support is an aid modality which involves dialogue, financial transfers to the national treasury account of the partner country, performance assessment and capacity development, based on partnership and mutual accountability. The new approach should enable greater differentiation of budget support operations allowing the EU to respond better to the political, economic, and social context of the partner country. The EU will put more emphasis on mutual accountability and shared commitment to human rights, democracy and rule of law as well as on transparency and oversight of the budget.

A new financial framework

The Commission's June 2011 proposals for the Multiannual Financial Framework (MFF) for the period 2014-2020 were based on the proposals for a “Budget for Europe 2020”⁵ which highlighted the areas where the EU could play an important role in an increasingly globalised world. The EU remains committed to pursuing the MDGs and achieving the target of Official Development Assistance (ODA) of 0.7% of Gross National Income (GNI) by 2015. To help achieve these targets, the stepping up of financing for external action within the budget from €6.8 billion to €70 billion and an increased roll-out of innovative financial instruments (such as loans, guarantees, equity and risk-sharing instruments) aimed at catalysing private investment and strengthening institutions in recipient countries has been proposed. It has also been proposed that the European Development Fund (EDF) for 79 African, Caribbean and Pacific (ACP) states should be increased from €23 billion for six years to €30.3 billion for

³ with the possible exception of candidate countries and potential candidates to EU accession funded by the Instrument for Pre-accession Assistance

⁴ Decision 1080/2011/EU

⁵ COM(2011) 500 final

seven years (in 2011 prices) and continue to be financed directly by the EU Member States.

Joined up decision-making

2011 was the first year of operation of the new European External Action Service (EEAS) under the authority of the High Representative of the Union for Foreign Affairs and Security Policy (HR). In 2011, the EEAS notably worked with Commission services on a joint response to the crises in Libya and Tunisia and the drafting on proposals on the new Multiannual Financial Framework. The global network of 140 EU Delegations carry out political, diplomatic and policy work for the EU and provide support to Member States through such activities as shared reporting. As some national diplomatic services scale back their resources to concentrate on other priorities, the added value of the EU Delegations is in ensuring that the EU is properly represented throughout the world. This is not about replacing national diplomatic services, but rather a more cost-effective and efficient use of resources and strengthening the global role of the EU.

The Arab Spring – responding to southern neighbours

In March 2011, the EU confirmed its support to help people in the southern Mediterranean achieve greater respect for human rights, more democracy and a better life. It offered “*A partnership for democracy and shared prosperity*” to southern neighbours in the context of the European Neighbourhood Policy (ENP). This is based on an incentive-based approach, supporting partners that are committed to reforms and establishing a closer link between the policy approach and financial assistance programme. This led to the reorientation of €600 million in the southern Neighbourhood towards the objectives laid down in the partnership: democratic transformation; a partnership with people and civil society, and sustainable and inclusive growth.

An additional €1 billion from the EU budget is being made available to ENP partner countries to support the implementation of the new May 2011 Joint Communication “*A new response to a changing neighbourhood*”. The largest part of these additional resources (€670 million) will be channelled through two umbrella programmes: SPRING (Support for Partnership Reform and Inclusive Growth) in the southern Neighbourhood (€540 million for 2011-13) and EaPIC (Eastern Partnership Integration and Cooperation) in the eastern Neighbourhood (€130 million for the period 2012-13).

The rest of the additional funding has mostly been allocated to higher education programmes (Tempus, Erasmus Mundus, etc.) and support to civil society organisations and non-state actors. A Civil Society facility was set up to build its capacity in both the EU’s Eastern and Southern neighbourhood to promote reform and increase public accountability, with a budget of €26.4 million for 2011. Another programme, ‘Investment Security in the Mediterranean Region (ISMED)’ was also prepared to respond to the momentous events of the Arab Spring.

Around the globe

To strengthen its ties around the globe in 2011, the EU used and deepened its full range of existing co-operation and trade and association agreements and specialised instruments.

The independence of South Sudan in July 2011 led to the opening of a new EU Delegation in Juba, South Sudan. EU Member States and the Commission agreed to improve co-ordination and coherence of aid by jointly programming €800 million of funds in a single strategy document 2011-2013, focussing on health, education, rural development, promoting rule of law and improving access to water and sanitation. Out of this, €200 million came from the EDF.

Events in North Africa also had both short and potentially longer-term impacts on that region's southern neighbours, particularly in the Sahel and neighbouring countries. Through its Instrument for Stability (IfS), the EU responded to requests for immediate support to stabilisation efforts in this region, including by addressing the livelihood and related needs of returning migrants (particularly from Libya) and others. The EU's 'Strategy for Security and Development in the Sahel' addressed the longer-term security and development impacts on the region. An initial €150 million package of support was divided between Mali, Mauritania and Niger for development and governance activities, including the strengthening of respective justice systems. The region continues to face multiple and intertwined challenges: extreme poverty, the effects of climate change, frequent food crises, rapid population growth, fragile governance, corruption, unresolved internal tensions, the risk of violent extremism and radicalisation, illicit trafficking and terrorist-linked security threats.

Food crises in the Horn of Africa proved to be one of the largest emerging challenges in the region in 2011. The EU provided additional funds to Ethiopia (€13.75 million), Djibouti, (about €4.5 million), and Somalia (€25 million). A new strategic framework for the Horn of Africa was agreed in November 2011 including the appointment of the first-ever EU Representative for the Horn, his initial brief focussing on Somalia and the region's rampant piracy. The EU also topped up its support to Côte d'Ivoire, granting the country €125 million to help the new authorities under President Alassane Ouattara restore political and economic stability. Progress was also made on implementing the second action plan of the Joint Africa-EU Strategy (JAES) and its eight thematic Partnerships. The Africa-EU Platform for dialogue on governance and human rights put forward proposals on natural resources governance in conflict and post-conflict situations, backing recent EU measures on more transparency of the activities of European extractive and forestry industries in Africa.

There was a strong focus on the EU's eastern neighbours in 2011 for whom the EU is viewed as a partner, a catalyst for reform and a magnet of economic opportunity. At the second Eastern Partnership summit in Warsaw on 29-30 September 2011, the EU and its eastern neighbours renewed commitments with the EU pledging additional resources of up to €130 million for 2012-2013 for partners committed to reforms. An international conference organised by Ukraine marking the 25th anniversary of the Chernobyl nuclear accident resulted in the earmarking of a further €550 million for the programme to erect a new safe confinement structure and protect the population and environment from the damaged Chernobyl Unit 4 shelter. The EU pledged an additional €10 million under its Instrument for Nuclear Safety Cooperation.

For Central Asia, the EU is seen as a close political ally and trusted partner on whom they can rely on in the challenging transition process on which they have embarked, at the same time as offering economic opportunities. At the EU/Central Asia foreign ministers' meeting in Tashkent on 7 April 2011, the two partners renewed their commitment to the objectives and implementation of the EU/Central Asia Strategy, with resources for the period 2012-2013 aimed at crucial political and socio-economic reforms.

The EU-Latin America/Caribbean (LAC) Madrid summit held in May 2010 signalled stronger political relations with the LAC region. The first ever region-to-region Association Agreement was concluded with Central America and a multi-party trade agreement was initiated with Colombia and Peru. Headway was made too on negotiations between the EU and the South American common market organisation, MERCOSUR, on an association agreement. 2011 also saw the opening of the EU-LAC foundation's headquarters in Hamburg, Germany, inaugurated in November 2011.

The EU also intensified its relations with the Association of Southeast Asian Nations (ASEAN) and strengthened bilateral ties with the bloc's ten members through the negotiation and implementation of bilateral partnership and cooperation agreements (PCAs) and free trade agreements (FTAs). One highly successful EU-funded project for the whole of the Asian region is SWITCH Asia, a multi-pronged programme which is promoting sustainable production and consumption, funding a series of small projects stretching across the continent. It is contributing to poverty reduction and improved quality of life (Millennium Development Goals (MDGs) 1 and 7) at the same time as promoting the green economy.

In the Caribbean, there was follow-up to significant number of initiatives launched in 2010. A final draft of the EU-Caribbean Joint Strategy, under discussion at the EU-CARIFORUM Summit in 2010, was prepared for institutional processing and it is expected to be unveiled during 2012. The implementation of the EU-CARIFORUM Economic Partnership Agreement (EPA) moved ahead. The long-awaited Caribbean Infrastructure Trust Fund was approved by the EDF committee in the form of a Caribbean Investment Facility to be launched in 2012.

Climate change is the single greatest threat to the Pacific region and is challenging its ability to reach the MDGs. As a follow-up to the EU-Pacific Initiative on climate change launched in December 2010, the EU Commissioner for development met with Pacific ministers in a high level regional conference (Vanuatu, March 2011) which led to a strengthened commitment to high-impact development co-operation aimed at addressing climate change, reducing poverty, promoting human rights, democracy and gender equality as well as achieving all the MDGs. A Joint Communication on 'Towards a renewed EU Pacific development partnership', is expected to be presented by the Commission and the High Representative in 2012.

Throughout 2011, the EU continued to take the lead in combating climate change on a global scale, pushing for progress in international climate negotiations. It delivered on its commitments to provide fast-start finance and stepped up its climate diplomacy activities ahead of the UN climate conference held in Durban, South Africa in November 2011.

EU sources water projects

Between 2004 and 2012, 272 projects have been co-financed under the ACP water facility established by the EU to improve water supply, hygiene and sanitation and water governance in African, Caribbean and Pacific (ACP) countries. The facility was originally set up with €700 million funding from the EU and a €12 million grant from the Spanish government.

The wider European Union Water Initiative (EUWI), launched in 2002, continues to seek to mobilise resources for water and sanitation from diverse sources. Since 2004, the EU has already helped more than 32 million people gain access to improved water supply and more than 9 million people to sanitation facilities. Building on the achievements of the EU water initiative and the EU-ACP water facility, the EU will continue to support international cooperation and to promote innovative approaches reinforcing the link between water and other sectors such as agriculture and energy.

In the Agenda for Change, the Commission stressed that new policies should tackle inequalities and, in particular, give poor people better access to land, water and energy without harming the environment. It has committed around €3 billion overall to activities related to water and sanitation projects between 2003 and 2010. Over this time, EU development assistance to the water and sanitation sector has almost tripled.

Achieving the MDGs

The annual report 2011 details how the EU projects and programmes are individually helping achieve the MDGs across continents and regions. The EU has mounted programmes and has

developed specific instruments to make the MDGs more attainable, including those goals which are most lagging behind – child and maternal mortality. In late 2011 the first component of the EU's €1 billion MDG Initiative, launched in September 2010, was adopted. It focusses on countries that are most off-track in their MDG targets. The EU food facility is also improving food security and nutrition. By the end of 2011, this €1 billion EU facility had funded 134 projects implemented by NGOs and EU Member State agencies, 69 projects by international organisations, three regional projects and ten budget support measures.

The Agenda for Change also places sustainable agriculture, food security and nutrition high on the EU's development cooperation agenda. With a view to helping countries reach MDG3 on gender equality, the EU's thematic programme, Investing in People, funded two major gender equality initiatives during 2011: one on women's social and economic empowerment, and a new United Nations programme, "Increasing accountability for financing to gender equality".

Strengthening human rights and good governance

In 2011, the EU used its range of external instruments and policies to promote and protect human rights and good governance and to combat gender inequality. In December 2011, the Commission and the High Representative presented a Joint Communication on "Human rights and democracy at the heart of EU external action – towards a more effective approach"⁶. While reaffirming the EU's approach on human rights, it aims to tailor the promotion of human rights to local conditions and envisages ways in which the collective weight of the EU could be harnessed. Further, under the proposals on the new MFF, the European Instrument for Democracy and Human Rights, will be strengthened including a proposal to step up support to civil society worldwide.

A sensitive approach to genital cutting

EU cooperation with the United Nations Children's Fund (UNICEF) has had considerable success in reducing the female genital mutilation/cutting and child marriage that affects the lives of many girls. Implemented by UNICEF, the programme has received a total of €991 000 in EU funding over the period 2008-2012. Targeting Egypt, Eritrea, Ethiopia, Senegal, Sudan and India, it has focussed on changing social norms and attitudes through conducting grass-roots education and discussion in rural communities around the sensitive issues using the intermediary of respected community leaders. Due to such a sensitive approach, Senegal is close to becoming the first country to declare the abandonment of the traditional practice.

Looking ahead

The Agenda for Change and accompanying proposals on budget support update the EU's external and development policies to take on the challenges of a rapidly changing world. This modernised agenda seeks to focus development cooperation on support for human rights, democracy, good governance and inclusive and sustainable growth. Sustainable agriculture, food security, sustainable energy, boosting the private sectors as a development partner, decent work and social protection floors are important areas in this context.

There is acknowledgement that the EU can improve its tools to support sustainable change in societies in transition, adapted to and taking account of their situations and needs. Low income countries are especially vulnerable to external shocks. To help build resilience against shocks over time, the 2011 Joint Communications proposed a stronger focus on domestic revenue mobilisation, strengthened social safety nets, increased efficiency of public spending,

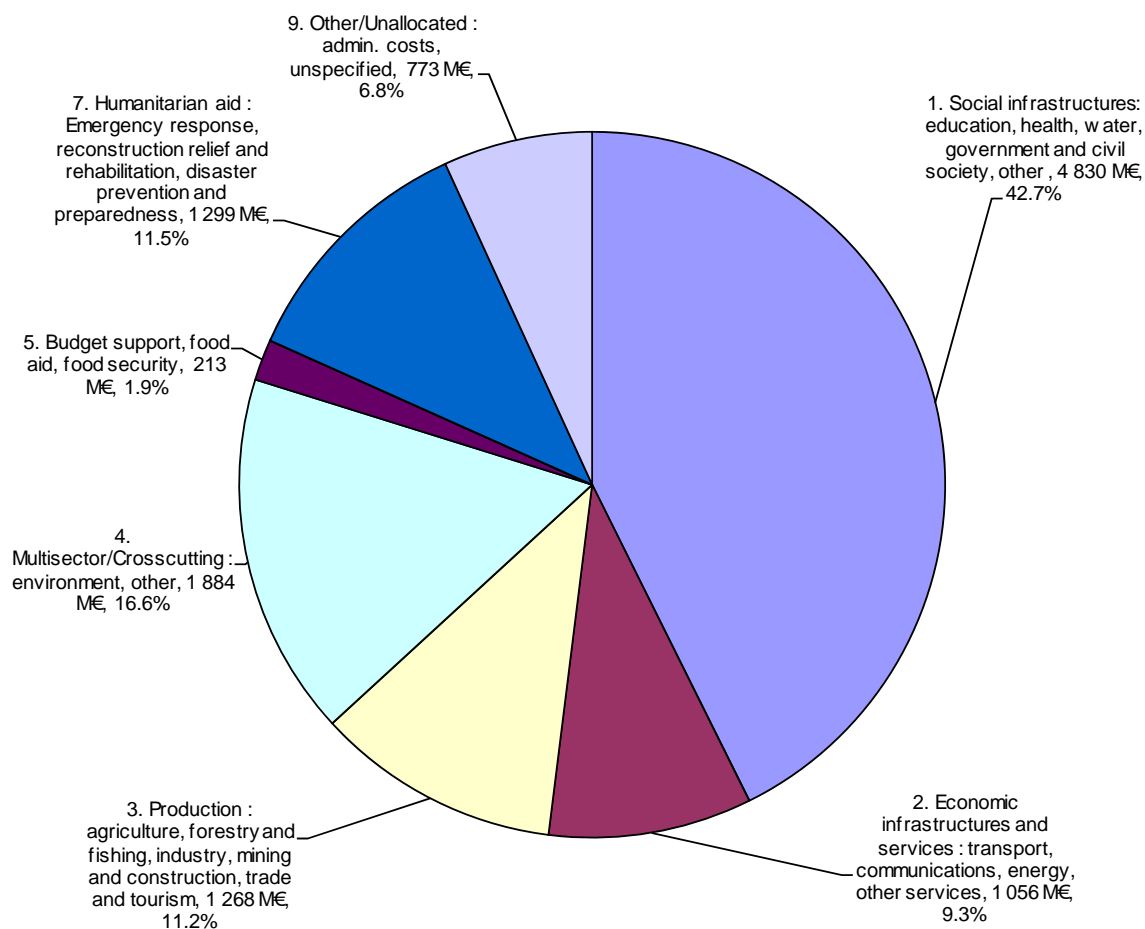
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<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0886:FIN:EN:PDF>

and measures to diversify economies. It will, however, take time for all the benefits of these policies to be felt. The Commission will also look at the scope for applying its innovative projects such as SPRING to other areas of the world.

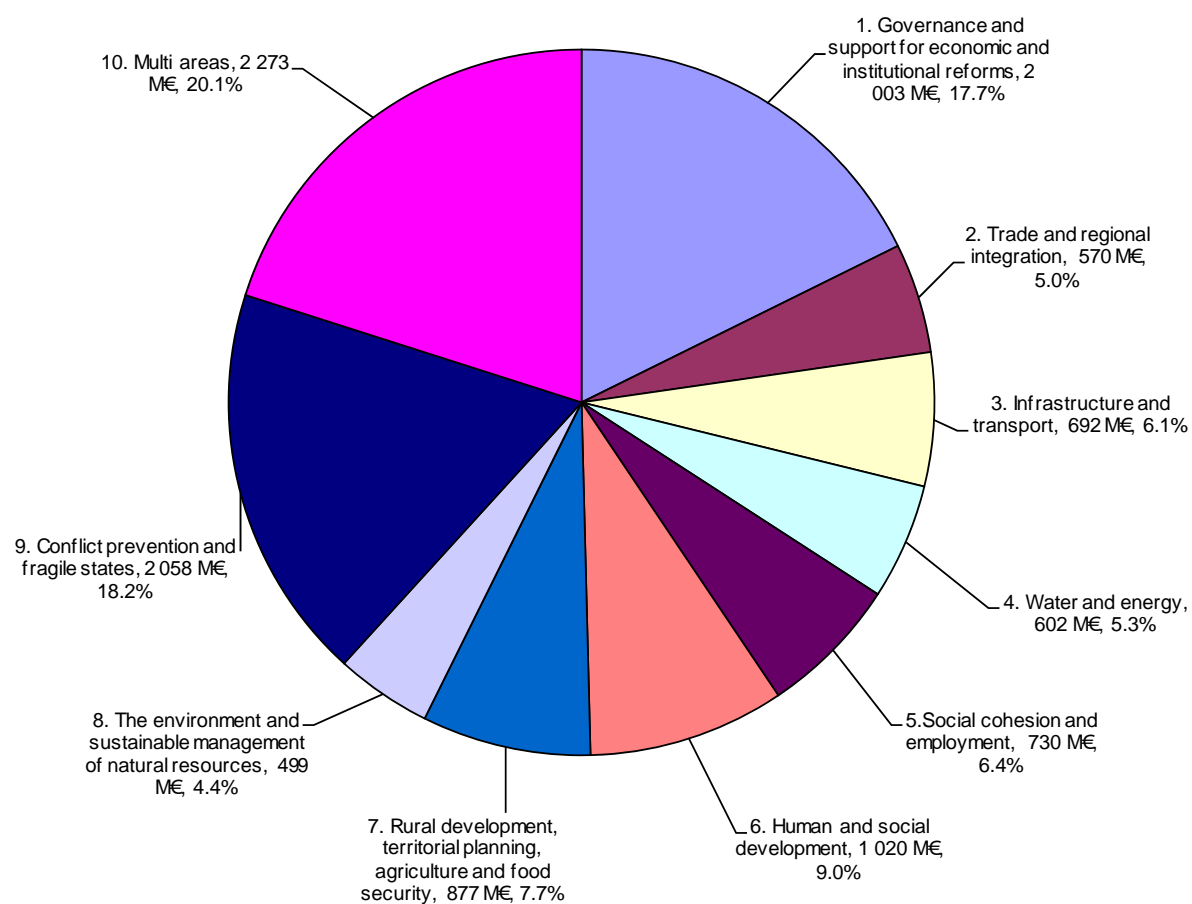
Short-term mechanisms are needed to help developing countries respond to the economic and financial impact of external shocks. Building on the experience gained in implementation of the FLEX instrument, the food facility and Vulnerability-FLEX (V-FLEX) instrument for countries coping with economic downturn, the Commission is developing additional shock-absorbing mechanisms. The achievement of the MDGs, and the framework that will come thereafter, will remain a key issue in 2012 in view of the next UN MDG Review in 2013.

Table 1: Sectoral Breakdown



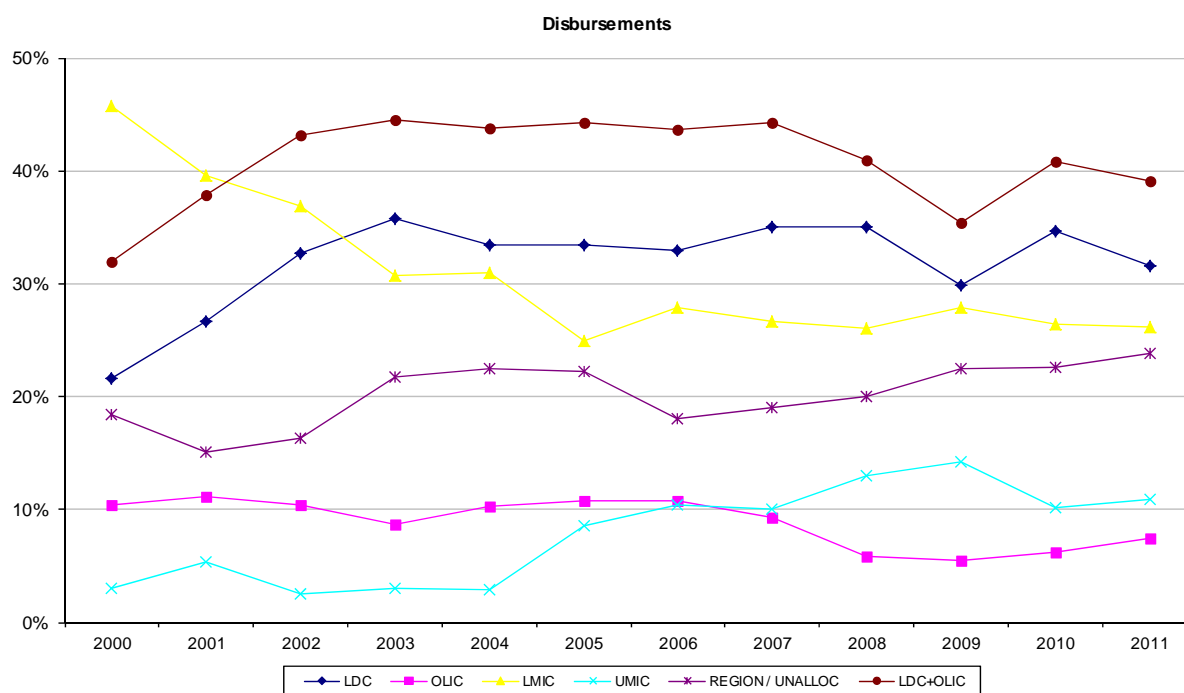
Commitments 2011 in € million
ODA resources managed by European Commission

Table 2: European Consensus: Areas relating to EU development cooperation



Commitments 2011 in € million
ODA resources managed by European Commission

Table 3a: 2000-2011 Poverty focus



LDC : Least Developed Countries

OLIC : Other Low Income Countries

LMIC : Lower Middle Income Countries

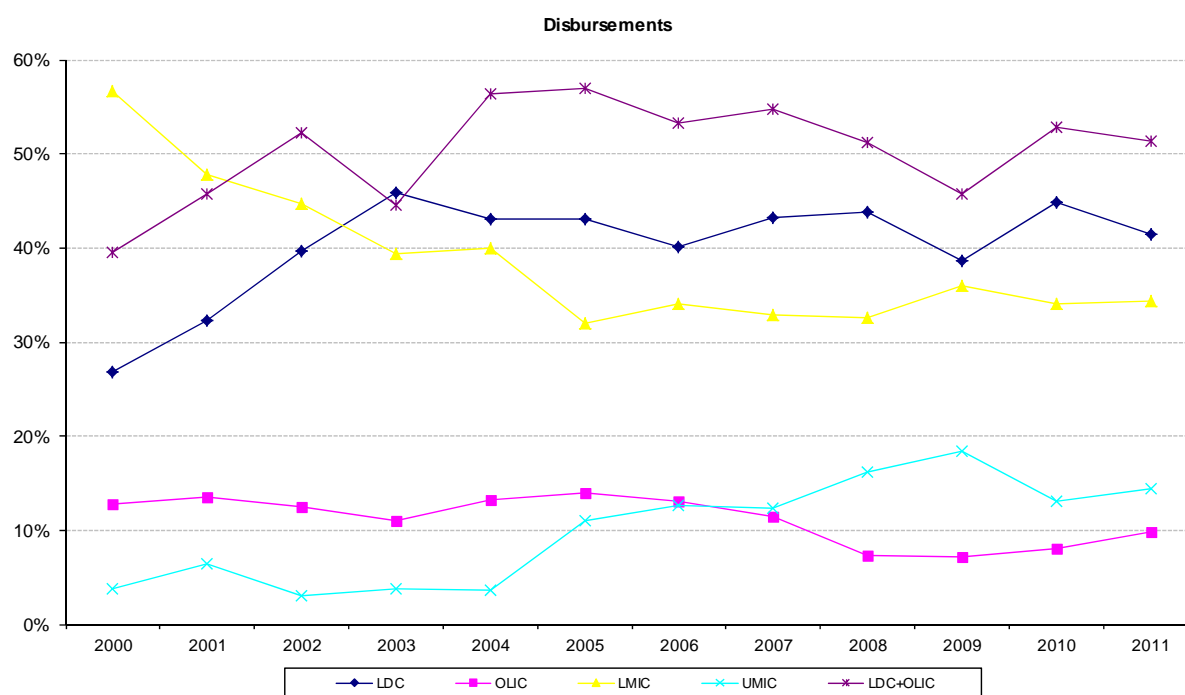
UMIC : Upper Middle Income Countries

REGION / UNALLOC : Regional Programmes and Unallocated

Region/Unalloc.programmes benefit also to poorest countries LDC+OLIC.

In the new OECD/DAC list, which took effect in 2008, a number of OLICs have been reclassified as LMICs: Cameroon, Cape Verde, India, Republic of Moldova, Mongolia, Nicaragua, and Republic of Congo.

Table 3b: 2000-2011 Poverty focus



LDC : Least Developed Countries

OLIC : Other Low Income Countries

LMIC : Lower Middle Income Countries

UMIC : Upper Middle Income Countries

In order to harmonize the presentation of this index with other donors, this index has also been calculated without taking into account regional and unallocated projects.

In the new OECD/DAC list, which took effect in 2008, a number of OLICs have been reclassified as LMICs: Cameroon, Cape Verde, India, Republic of Moldova, Mongolia, Nicaragua, and Republic of Congo.